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April 1, 2009

The Honorable Michael E. Fryzel
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Gigi Hyland
Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Sent via email and regular mail

Re: Comments on Advanced Notice of Proposed Rulemaking for Corporate Credit Unions

Dear Chairman Fryzel, Vice Chairman Hood and Board Member Ms. Hyland:

Prior to the NCUA's placing U.S. Central Federal Credit Union (U.S. Central) and Western Corporate Federal Credit Union (WestCorp) into conservatorship, we intended to begin this comment letter as we began others by stating our appreciation for the opportunity to comment on the NCUA's proposed regulatory action. The rulemaking process has served us well over the years by providing an avenue for the regulators and the regulated community to vet proposals that impact the credit union movement. In many, if not most, instances, we have been able to reach common ground by exchanging opposing opinions and perspectives.

So, it is with disappointment that we prepare this comment letter. NCUA's unilateral actions have rendered many of our members' comments and opinions moot with regard to the restructuring of the corporate credit union system and the hope of mitigating the financial losses and reputation damage to the credit union movement.

As a matter of background, the Pennsylvania Credit Union Association ("PCUA") is a statewide trade association that represents almost eighty-five percent (85%) of the approximate 574 credit unions located within the Commonwealth of Pennsylvania. Due to the significance of this ANPR, the PCUA consulted with its Board of Directors and all of the Associations' committees, including: the Government Affairs Committee, the Regulatory Review Committee, and the State Credit Union Advisory

Committee (the Committees). These Committees consist of credit union CEOs who lead the management teams of Pennsylvania federal and state-chartered credit unions. Members of the Committees represent credit unions of all asset sizes.

NCUA and our member credit unions share one common objective, to preserve the safety and soundness of the movement and the earnings and capital that natural person credit unions have worked so hard to build up over the past approximate seventeen years since the recession in the early 1990's. The credit union movement has been applauded by federal and state legislators, the national media and the public at large for staying true to our mission. It is well acknowledged that natural person credit unions did not engage in the mortgage lending activities that caused our Country's current financial crisis. Likewise, natural person credit unions have been held up as examples for maintaining healthy capital levels so that they may continue to meet their members' credit needs during these difficult economic times.

Therefore, we trust that NCUA can appreciate our shock and surprise, which has evolved, in some cases, into anger and frustration, at the unilateral taking of our hard earned capital and earnings to fix something we did not break.

Before NCUA's conservatorship action, many of our member credit unions supported the strategy of addressing and resolving the corporate credit union system problems within the credit union system. Post March 20, 2009, those same members question the credibility of NCUA due the lack of transparency in sharing the information NCUA used to conclude that it is in the best interest of the credit union movement to usurp the earnings and capital of the natural person credit unions without providing them a voice in the process.

The consensus of our membership was to allow for market solutions to decide the fate of the corporate credit union system, not for regulatory solutions to dictate their future. To say that our federal and state governments are currently faced with the impossible task of governing on the basis of uncertain data and projections is an understatement. While we recognize quick action is imperative in some cases, we must question whether it is wise, and ultimately in our best interests, to take action before some of the fluid data becomes more solid or before all of the alternatives for mitigating losses and expenses are considered and explored. NCUA has somewhat determined the fate of the corporate credit union system. Hasty actions by the conservator in the disposition of the conservatorship assets could detrimentally impact the future viability and relevance of the entire credit union movement for years to come.

1. The Role of the Corporates in the Credit Union System:

It is imperative that the corporate credit union system be preserved to operate settlement and payment systems and provide liquidity and short-term investments for natural person credit unions. This function should be provided at the retail level. However, our membership submits that the duplication in the corporate credit union system unnecessarily increases the risks and costs of providing these services. Our member credit unions agree on the elimination of pass-through corporate credit unions from the system. Some of our members want the corporate credit unions to continue to provide long-term (and sometimes riskier) investment opportunities. It makes sense that this function is conducted at the wholesale level, provided that, capital requirements be imposed to adequately protect against the risks associated with those types of investment activities. Accordingly, current investment authority should be retained (greater than natural person credit unions) provided that appropriate capital standards are imposed.

2. Corporate Capital:

One aspect of the current system that has drawn criticism (and maybe has drawn the most criticism) is the tie between the riskier investment activities conducted at the wholesale corporate credit union level and the national credit union share insurance fund (NCUSIF).

Most, if not all, of our members, want to see the link between the risk of investment activities (or other activities that have inherent risks) and the impact on the share insurance fund be eliminated.

Those natural person credit unions that want to use the corporate system to make investments should be responsible for adequately capitalizing the corporate credit union that they chose to use so that the entire movement is not placed at risk in the event of a market downturn. Capital in a corporate credit union that chooses to offer investment services should be required to comply with the capital standard imposed on other financial institutions, including Tier I, Tier II, and risk-based capital requirements.

We also note, however, that in the era of security breaches and increased fraud in payment systems, it is also imperative that corporate credit unions that offer these services be adequately capitalized and insured to protect the NCUSIF from systemic exposure.

Our members note that some corporate credit unions have built an infrastructure to access the capital markets through the development of expertise, technology, relationships, and experience much like they have in the operation of settlement and payment systems. The infrastructure should not be wasted.

We strongly agree and encourage NCUA to work with Treasury to find a way for the corporate credit unions (and the NCUA as conservator) to fit into the public-private asset acquisition plan announced by Treasury Secretary Geithner.

Likewise, we strongly agree and encourage NCUA to work with lawmakers to do whatever is necessary to mitigate and spread the deposit impairments to the credit unions' balance sheets and the contributions required by natural credit unions needed to replenish the insurance fund over an extended period of time, such as seven years.

The current tie between the NCUSIF and the corporate credit union system failure will effectively deprive natural person credit unions of the earnings they accumulated during 2008, and, in some cases, the earnings they have accumulated over the last several years. Losing earnings (and capital) of this magnitude due to the corporate credit union failures when coupled with the low or no earnings that are likely during these difficult economic times, will greatly stifle natural person credit unions' expansion and growth in the future.

As NCUA is aware, under the current laws and regulations, credit unions can only raise capital organically through earnings. Rebuilding the capital they are losing to replenish the NCUSIF will exacerbate the competitive advantage of other financial institutions that will be able to raise capital more readily after the market settles.

It seems ironic and unfair that credit unions are further disadvantaged in the financial services market even though they did not contribute or participate in the activities that caused the present financial crisis.

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Therefore, in addition to reviewing the current services of the corporate credit union system, we ask that NCUA explore and examine avenues through which corporate credit unions can assist natural person credit unions in rebuilding their capital, possibly through the ability to create a market for obtaining secondary capital, such as subordinated debt.

These are challenging times for the credit union movement. We ask NCUA to work with us, not against us, in helping the movement remain viable and relevant so that we can continue to serve the needs of our members. Please feel free to contact me or any of the PCUA staff at 1-800-932-0661 if you have any questions or if you would like to discuss our comments.

Sincerely,

Pennsylvania Credit Union Association

A handwritten signature in dark ink, appearing to read "Jim McCormack", with a stylized flourish at the end.

James J. McCormack
President/CEO

JJM:LSK:llb

cc: Association Board
Government Affairs Committee
Regulatory Review Committee
State Advisory Committee
R. Wargo
L. Kennedy
M. Dunn, CUNA